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PROGRAM AREAS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS THAT ARE VULNERABLE TO FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

Y 4. W 36: 103-1

Program Areas Within the Jurisdiction...

HEARING BEFORE THE SUBCOMMITTEE ON OVERSIGHT OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES ONE HUNDRED THIRD CONGRESS FIRST SESSION

—
FEBRUARY 3, 1993
—

Serial 103-1

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Printed for the use of the Committee on Ways and Means



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PROGRAM AREAS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS THAT ARE VULNERABLE TO FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

WEDNESDAY, FEBRUARY 3, 1993

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
*Washington, D.C.***

The subcommittee met, pursuant to call, at 10 a.m., in room 1100, Longworth House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
THURSDAY, JANUARY 28, 1993

PRESS RELEASE #2
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN,
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES A HEARING TO REVIEW PROGRAM AREAS WITHIN THE
JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS THAT ARE
VULNERABLE TO FRAUD, WASTE, ABUSE, AND MISMANAGEMENT

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to review the reports of the General Accounting Office (GAO) concerning programs within the jurisdiction of the Committee on Ways and Means which have been classified as "high risk" and additional management and program issues within the Committee's jurisdiction.

The hearing has been scheduled for Wednesday, February 3, 1993, beginning at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building. The Subcommittee will receive testimony from representatives of GAO.

In December, 1992, GAO issued a series of 17 reports concerning "high risk" Federal programs found to have been especially vulnerable to waste, fraud, abuse, and mismanagement. These reports represent part of GAO's continuing effort to review and report on improvements needed to reduce risk in these programs. Further, GAO issued a series of "transition" reports describing major management and program issues facing the Congress and the new Administration. Many of the GAO reports focus on issues within the jurisdiction of the Committee on Ways and Means. GAO will testify before the Subcommittee on issues relating to the Pension Benefit Guaranty Corporation, the Medicare program, the Internal Revenue Service, the U.S. Customs Service, the Resolution Trust Corporation, the Superfund program, and other matters.

In announcing the hearing, Chairman Pickle stated: "GAO's reports zero in on programs that have the greatest potential for waste of our Federal dollars. These reports will provide the Subcommittee with a valuable overview of the problem areas where we need to continue to focus our attention during the 103rd Congress. Many of the issues reviewed by GAO were the subject of Subcommittee hearings and investigations during the 102nd Congress, or will be the subject of future Subcommittee activities. This hearing is in furtherance of the full Committee's ongoing major oversight initiative to improve the efficiency and effectiveness of programs under the Committee's jurisdiction."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Because the oral testimony at the hearing will be presented by invited witnesses only, interested parties are encouraged to provide written statements for the printed hearing record. Persons submitting written comments for the printed record of the hearing should submit six (6) copies by the close of business, Thursday, March 4, 1993, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

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1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * *

Chairman PICKLE. Good morning everyone. I have asked the subcommittee to please come to order. This is the first meeting we have had this year by this subcommittee and we are anxious to get under way. I have had a chance to visit with many of the Members individually and I think we are all on the starting blocks, ready to move forward.

This is a particularly interesting hearing because this hearing lays before our subcommittee and indeed the full Ways and Means Committee many of the at-risk problems that exist in the tax area. At least many of them are in the tax area. So we are glad to have all of you here this morning.

I am going to make an opening statement and yield to my colleague, Mr. Houghton, for his remarks and the remarks of any other Members. I will proceed and then recognize Mr. Houghton.

This is the first hearing held by the Subcommittee on Oversight during the 103d Congress and so I welcome all the Members. The jurisdiction of the Committee on Ways and Means is very broad as is the jurisdiction of this subcommittee. It is, therefore, timely and appropriate that we begin this Congress by hearing from the General Accounting Office—GAO—on a broad range of areas within the committee's jurisdiction which merit special attention because they are especially vulnerable to fraud, waste, abuse, and mismanagement.

In 1989, I contacted GAO to request information and findings related to waste and abuse in Government programs within the jurisdiction of the Committee on Ways and Means. Each year since then, GAO has provided the committee with a listing of high-risk programs under its jurisdiction, and each year the subcommittee has devoted considerable time and attention to improving the administration of these programs.

GAO's high-risk reports focus on areas that are especially vulnerable to fraud, waste, and abuse. Of the 17 reports recently issued, 5 focus on issues that are squarely within the jurisdiction of the Committee on Ways and Means.

These reports relate to the Pension Benefit Guaranty Corporation, Medicare claims, Internal Revenue Service receivables, managing the Customs Service, and Asset Forfeiture programs. Two additional reports on the Resolution Trust Corporation and the Superfund program management also relate to programs over which the committee has some jurisdiction.

Regrettably, these reports show that there continue to be problems in programs which were first identified as high-risk back in 1989.

Today's hearing should provide the subcommittee with an overview of the problems identified by GAO and the corrective actions needed to limit the exposure of taxpayers to billions of dollars in losses related to these programs. Many of the subject areas and programs identified by GAO as high-risk have been the subject of prior subcommittee hearings and investigations.

It is important to note that the solutions to most of the problems GAO raises require administrative action and reform rather than legislation. Therefore, the subcommittee must focus on solutions to these problems through continuing and diligent oversight and work

closely with the new administration to improve the bureaucracy as a first order of business. The public expects no less.

With the budget deficit running out of control, our Nation finds itself in the midst of an economic crisis. In a time of shrinking resources, every dollar we spend on Federal programs is precious. We simply cannot afford to be spending money that will be eaten up by fraud, waste, abuse, or mismanagement. It is absolutely crucial that we expose areas of waste and set about reforming them. Discussion of GAO's "high-risk" and "transition" reports will serve as a valuable first step in that effort. I hope that during this Congress we can build on the work done by GAO to make the Federal Government more effective and efficient.

Finally, for 2 years, GAO conducted investigations at the request of the subcommittee in the areas of Medicare, Federal benefit payments to dead people, mismanagement of Customs inspector overtime, and PBGC.

The subcommittee's recommendations for legislative reform in these areas are in H.R. 22, the Federal Program Improvement Act of 1993. Again the committee and the Congress need to expeditiously get those reforms enacted into law and eliminate the billions in Government waste.

That concludes my opening statement. I will be glad to yield to Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

I am delighted to be here. This is the first meeting I have been to, the first hearing, and thank you all very much for being here as our witnesses.

I don't think any of us are unaware of the tremendous work that the chairman has done over the years in trying to streamline Federal programs and cut wasteful practices. So today it is particularly appropriate when we are talking about the presentation by the GAO of 17 high-risk areas, this is one of the things I have been interested in personally because so many times these things are sort of behind the curtain. We don't understand what could happen and there have been obvious examples of this over the years.

Certainly many of us who come from the private sector have watched the painful restructuring of business. There doesn't seem to be the same discipline in terms of the Federal Government. Sometimes we paper over a problem and ignore it and all of a sudden it blossoms into a problem.

The high-risk areas of the Federal Government clearly are an important first step in looking at a variety of different things which can affect us all as legislators here. In addition, we will be hearing from the GAO on some policy transition briefs prepared for the new administration.

I caution that we want to be careful about piling new programs and new budgets on American businesses. Rather than overregulation, we should support and encourage businesses, particularly in this time of economic malaise. So in the short run perhaps we could follow the policy of eliminating an existing rule or regulation for every new one we create. Not a bad principle to follow.

Thank you, Mr. Chairman. I look forward to working with you and to hearing the testimony of the people on the panel.

Chairman PICKLE. Do any other Members wish to make an opening statement?

Thank you, Mr. Houghton.

We will proceed then and I want to recognize first Don Wurtz who is Director of Financial Integrity Issues, Accounting and Financial Management Division of GAO. I think, Mr. Wurtz, I will recognize you for your statement and then will you present each one of the individuals and the subjects that they will be discussing?

Mr. WURTZ. I will, Mr. Chairman.

Chairman PICKLE. I will ask you, in the interest of time, if you could make your statements and summarize your general statement, keeping it to approximately 5 minutes. If you need more time, we will yield that. We want to get a general summary because this is a reporting session more than a legislative markup.

STATEMENT OF DONALD R. WURTZ, DIRECTOR, FINANCIAL INTEGRITY ISSUES, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. WURTZ. Mr. Chairman and members of the subcommittee, we are pleased to be here today to discuss issues in our high-risk and transition series reports that fall within the jurisdiction of the Ways and Means Committee. I am Don Wurtz from the Accounting and Financial Management Division. With me are Joseph Delfico and Janet Shikles from our Human Resources Division; Jennie Stathis, William Gadsby, and Gaston Gianni from our General Government Division, and Richard Hembra from our Resources and Community Development Division. They will each discuss the seven areas over which this subcommittee has jurisdiction.

When they have completed their presentations, I would like to discuss several deficiencies that are common in the seven areas and exist in general throughout the Government. We will begin with Mr. Delfico discussing the Pension Benefit Guaranty Corporation.

STATEMENT OF JOSEPH DELFICO, DIRECTOR, INCOME SECURITY ISSUES, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. DELFICO. Thank you, Mr. Chairman.

I am pleased to be here today to discuss PBGC. In 1974, Congress passed the Employee Retirement Income Security Act to correct weaknesses in the private pension system. Over the past 18 years, the Congress has amended pension law numerous times to help protect plan participants and to help strengthen the system overall.

First, PBGC's deficit is large and growing in recent years and is primarily the result of past terminations of large underfunded pension plans. The greatest threat the agency faces is from the group of ongoing large underfunded plans with financially troubled sponsors: the airlines, the tire industry, and steel.

To control PBGC's deficit, the underfunding in the plans PBGC insures must be reduced. Congress needs to focus on ways to improve the funding of currently underfunded plans and on methods that will ensure fully funded plans remain that way.

Second, the premiums PBGC collects have not been large enough to offset the losses PBGC has incurred. Neither do they fully cover the risks PBGC assumes. At the present time, premiums are only partially risk related. We believe the Congress should reexamine PBGC's premium structure, which could be made to better reflect the risks faced by PBGC. Increased premium income will help offset future agency losses and may help reduce its current deficit. A more risk-related premium could also provide an added incentive for sponsors of underfunded plans to fund their plans.

Third, the agency has serious financial management problems. Because of weaknesses in its internal controls and financial systems, we have never been able to audit the agency's financial statements. These financial accounting weaknesses undermine the agency's capacity to administer the pension insurance program and to provide basic accountability for its programs and resources.

Finally, much of the responsibility for ERISA oversight—for funding standards, reporting and disclosure requirements, minimum participation and vesting standards, and fiduciary responsibilities—lies with the Internal Revenue Service and the Department of Labor.

Splitting the oversight responsibility weakens the system. IRS and Labor have limited resources relative to their responsibilities. At IRS, for example, about 1,000 revenue agents are responsible for ensuring the compliance of nearly 1 million plans. Both IRS and Labor have taken steps to improve their oversight and enforcement programs, but weaknesses remain.

Mr. Chairman, that concludes my statement.

STATEMENT OF JENNIE S. STATHIS, DIRECTOR, TAX POLICY AND ADMINISTRATION ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Ms. STATHIS. I am Jennie Stathis from our General Government Division and I do work related to tax policy and administration.

Chairman PICKLE. We will withhold questions until all the panelists have presented their statements and then go back to recognizing the Members.

Go ahead.

Ms. STATHIS. We have issued two reports in this series on the Internal Revenue Service and they cover major issues facing the agency. They are all issues familiar to this subcommittee.

The most pressing overall issue is to manage tax systems modernization. With an estimated cost of \$23 billion through the year 2008, TSM is perhaps the largest civilian computer modernization in history. It is absolutely essential that IRS replace its outdated and inefficient automated systems. A critical step in getting the most from that effort however is to change the way IRS operates, streamline the work processes as well as the organizational structure.

In the past year, IRS reached the same conclusion and began studying the way it does business. To keep TSM on track, the agency will have to complete its studies and decide on an operational strategy soon.

The changes that are sure to come as IRS redesigns the way it does business will transform the agency into one that depends less on manual labor and more on technology-based skills. So it is also critical that IRS attends to the significant human resource challenges of determining the future skill needs and strategies for re-training staff or otherwise meeting those needs.

IRS is building a good strategic business process. The IRS strategic plan sets three broad objectives: improve voluntary compliance, reduce taxpayer burden, and improve quality-driven productivity and customer satisfaction. The agency is now working on appropriate performance measures for those objectives. The measures need to focus more on outcomes than on processes, as the measures currently used largely do. The measures selected are very important because they will drive the actions of managers throughout the country.

IRS will have to give continuing attention to the collection of back taxes. This is one of our designated high-risk areas and one to which this subcommittee has devoted considerable oversight. While IRS has emphasized reducing these accounts, collections of delinquent taxes over the past 5 years have not changed very much. IRS estimates that about \$28 billion of the inventory could be collected.

Among other things, IRS needs to shorten and improve collection procedures and change the mix and distribution of staff among its various offices.

In addition to delinquent taxes already on the books, IRS estimates another \$114 billion of taxes are owed but not paid—the so-called tax gap. IRS recently set a goal to increase voluntary compliance with the tax laws from 84 percent to 94 percent in 8 to 10 years. To achieve that goal, important decisions will have to be made on research efforts, enforcement programs, and resource allocations.

Managing IRS is made more difficult because IRS, like other agencies, has serious financial management weaknesses. The financial systems do not produce information helpful in evaluating program performance. Delinquent taxes, for example, are not accurately reported; the amounts of taxes collected for Social Security or any of the trust funds are not reliably segregated.

These issues together present a formidable challenge for IRS.

STATEMENT OF JANET L. SHIKLES, DIRECTOR, HEALTH FINANCING AND POLICY ISSUES, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Ms. SHIKLES. I am Janet Shikles and I direct the GAO health care studies and I am going to talk about a report we issued on Medicare as one of our high-risk areas. Medicare is the Nation's largest payer of health care benefits. CBO expects that Medicare expenditures are going to rise from \$129 billion in 1992 to \$259 billion in 1998.

In recent years, the Medicare program has lost billions of dollars to fraud, waste, and abuse. Though Medicare's losses cannot be quantified precisely, health industry experts estimate that fraud and abuse could account for as much as 10 percent of the Nation's total health care costs.

The Health Care Financing Administration, or HCFA, relies on numerous private contractors that process Medicare's claims and are responsible for protecting program funds through a set of activities that are called payment safeguards. We have found, however, that HCFA has been unable to properly manage contractor safeguard activities.

In addition, the funding level has been inadequate. As a result, there have been numerous problems. We have reported, for example, that contractors have failed to investigate complaints of fraud and abuse that have been telephoned in by beneficiaries of the program and we have lost a lot of money as a result of that.

Contractors also did little to reclaim over \$170 million in overpayments owed by hospitals and contractors; and contractors paid an estimated \$2 billion in claims that should have been paid by other private health insurers.

Medicare is also vulnerable to exploitation for other reasons. The payment policies permit excessive reimbursement rates for certain services, and lose controls over who could bill a Medicare program have made the pursuit of fraudulent providers very difficult.

In our view, HCFA needs to exercise stronger leadership in managing the Medicare program. In particular, it needs to improve oversight of contractors' activities aimed at reducing fraud, waste, and abuse.

The agency also needs to reduce excessive payments and it needs to tighten controls over who can bill the program. We have also emphasized, however, that the threat of insurance fraud and abuse is endemic not just to Medicare, but to the entire health care system.

As a result, we believe that you need a coordinated public and private attack on health care frauds and abuse. As a result, we have asked the Congress to consider establishing a national health insurance fraud commission. The commission would be composed of public and private insurers, among others, and would be responsible for developing recommendations to the Congress. It would address such issues as how insurers can coordinate and fund case development and prosecution efforts, whether and how to regulate unlicensed medical facilities and how insurers can standardize claims information and billing rules.

Thank you.

Chairman PICKLE. Thank you.

Mr. Gadsby.

STATEMENT OF J. WILLIAM GADSBY, DIRECTOR, GOVERNMENT BUSINESS OPERATION ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. GADSBY. I am Bill Gadsby from our General Government Division. I am going to cover two of our high-risk reports in succession. The first deals with Customs Service management, which results from our management study of the Customs Service called for by this committee after its own extensive study of Customs operations. The second deals with the seized and forfeit assets program. We have worked with the Customs Service, IRS, and this committee for 7 years to improve the operations of that program.

Our management study of the Customs Service showed that it could not ensure is that it is meeting its responsibilities to combat unfair trade practices or protect the public from unsafe goods. Customs did not detect about 84 percent of the estimated trade law violations in imported cargo during fiscal year 1991. Moreover, it has experienced declines in the percentage of estimated cargo violations detected since calendar year 1988.

Also, Customs' financial management systems has had a range of weaknesses, including the absence of reliable information on operating costs and the status of accounts receivable, a lack of data integrity in the general ledger, and weaknesses in its internal controls over the payment of overtime to Customs inspectors.

Customs lacks an effective strategic management process that is capable of guiding its operations and establishing accountability for its performance. Its current 5-year plan does not set forth a clear objective for its trade enforcement activities, prioritize its numerous objectives, or adequately articulate a means of fully automating Customs transaction processing.

Further, Customs is experiencing related weaknesses in information management, financial management, human resource management, performance measurement, and organizational structure. Left uncorrected, these weaknesses could hinder Customs' capacity to meet the challenges of the changing world trade environment.

Over the past several years, Customs has achieved some successes. The trade community, for example, says that the Automated Commercial System, the core information system for Customs transaction processing, has been effective in meeting its needs. Furthermore, Customs has been able to achieve broad agreement among the diverse interests within the trade community in support of legislation to enable Customs to proceed toward full automation of the Customs transaction process.

As Customs pursues its plans to fully automate Customs transaction processing, it must be sure to develop the management processes needed to meet its trade enforcement responsibilities. To its credit, Customs is actively addressing the management problems identified by us in our management review and by others. It has initiated a program of financial reforms and established task forces to address needed improvements in its trade enforcement efforts, strategic management processes, and the management of information as well as human resources.

The success of these efforts will be influenced by how well Customs develops and gains acceptance for its comprehensive trade enforcement strategy, corrects its longstanding financial management problems, and has the support and oversight it needs from the Congress and the Office of Management and Budget to help it focus on key strategic and organizational issues.

Moving to the topic of seized and forfeited assets, I would like to say that it has been a long time coming, but I believe that the Customs Service as well as the Marshals Service within Justice are now in control of the ever-increasing amount of property that is being seized.

The agencies have made considerable progress in establishing the systems necessary to effectively manage those properties. Many of the program changes that have taken place were legislatively di-

rected. In fact, this committee should be commended for taking the lead on many of those changes and maintaining effective oversight of that program over the past several years.

Some of the more significant changes in the seized property programs include the establishment of the self-sustaining asset forfeiture fund, policies designed to improve seized cash operations, procedures designed to curtail nonproductive seizures, procedures allowing all uncontested cash seizures to be forfeited administratively, and a requirement that agencies produce annually audited forfeiture fund financial statements.

Now that the major operational problems related to the management and disposition of seized and forfeited properties have been identified and corrective actions initiated, sustained oversight is needed to keep the improved operations on track. In addition, the incoming Attorney General and the Secretary of the Treasury should continue to pursue the recent initiative involving consolidation.

You may recall that in 1991, we reported that the two agencies, the Customs Service and the Marshals Service, could reduce their program administration costs by about 11 percent annually by consolidating the management and disposition of their noncash seized property inventories.

The two agencies have agreed to a pilot test which began last October. Interest in the asset forfeiture program is broadening to include the question of whether the agencies are applying the asset forfeiture laws appropriately and effectively. Adequate safeguards are needed to ensure that Federal agencies do not become overzealous in their use of asset forfeiture laws or too dependent upon the funds derived from seizures.

Mr. Chairman, that concludes my statement. Mr. Gianni will now discuss our activities at RTC.

STATEMENT OF GASTON L. GIANNI, ASSOCIATE DIRECTOR, GOVERNMENT BUSINESS OPERATION ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. GIANNI. I am Gaston Gianni. I am responsible for GAO's program work at the RTC. Today I would like to discuss our high-risk report on the Resolution Trust Corporation and discuss some of the risks that could be minimized through better management and opportunities for the Congress and the administration to reduce the overall costs of the thrift cleanup by providing adequate funding to RTC to carry out its thrift resolution responsibilities.

RTC has discharged some of its responsibilities for resolution and asset sales fairly well. But poor planning and execution of real estate disposition strategies, problems with the contracting system, and inadequate information systems have hampered RTC's overall performance. Deficiencies in these areas reduce the amount of money RTC recovers through asset disposition and increases the likelihood that the taxpayers will need to cover additional costs.

RTC's disposition approaches have sometimes been inefficient, and it has failed to adequately plan its sales approaches. RTC's contracting system, the means through which RTC pursues its mission, is troubled by poor planning and oversight. RTC does not ade-

quately define what services are needed, the scope of the work, and the types of contracts that will best accomplish these ends. Moreover, RTC has difficulty overseeing the tens of thousands of contractors who manage and dispose of billions of dollars in assets on its behalf.

RTC's asset information systems are inadequate. In March we reported that RTC had not, one, adequately defined its business strategies for managing and selling assets; two, matched information needs with these strategies; and three, developed systems to provide timely, accurate, and complete information needed to manage disposition programs and oversee contractors. Since then, RTC has taken steps to correct these problems with information systems, but much more work remains.

In addition to these concerns, RTC's efforts have been hampered by repeated funding disruptions. It has run out of funds and has had to stop resolving thrifts three times since it was established. Certain RTC operations have not been funded since April 1, 1992. As a result, thrifts under RTC control have continued to post losses that will contribute to the overall cost of the cleanup.

We continue to believe that RTC should be given the additional funds needed to pursue its resolution activities. Any further delay merely increases the eventual cost of the S&L cleanup.

Finally, it is necessary to prepare for the challenges that are likely to endure beyond 1993, when RTC relinquishes its resolution responsibilities, and in 1996 when RTC is scheduled to close its overall activities.

That concludes my summary.

Chairman PICKLE. Thank you, Mr. Gianni.

Mr. Hembra.

STATEMENT OF RICHARD L. HEMBRA, DIRECTOR, ENVIRONMENTAL PROTECTION ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. HEMBRA. Thank you, Mr. Chairman.

As GAO's Director for Environmental Protection Issues, I would like to focus my discussion on the Superfund program. Hazardous wastes have contaminated thousands of sites across the country and have endangered nearby communities. The Superfund program was created in 1980 to clean up the most dangerous of these sites.

Some 12 years into the program, the cost of cleaning up Superfund sites may be as much as \$300 billion over the next 30 years. Hundreds of billions may also be spent for cleaning up federally owned Superfund sites. Preliminary estimates for DOD and DOE alone total close to \$200 billion.

An effort this costly should be justified on evidence that expenditures will result in commensurate benefits to human health and environmental benefits. But the Federal Government currently lacks an adequate system for assessing the risks posed by Superfund sites relative to other environmental problems or even to compare one site with another.

Two program management problems are also putting Superfund resources at risk. First, although the Superfund law requires par-

ties who contaminated sites to reimburse EPA for its cleanup costs, EPA has recovered just 10 percent of the \$5.7 billion it has classified as recoverable.

Because EPA has not properly tracked its recovery efforts, it cannot explain this low rate of repayment. In addition, EPA has to date excluded from its recovery efforts over \$1 billion of indirect costs and the Superfund law's restrictions on charging interest have reduced potential recoveries.

Second, although it relies heavily on contractors to perform much of its cleanup work, EPA until last year ignored longstanding deficiencies in the management of its contracts. For example, although EPA direction relies heavily on cost-reimbursable contracts to operate Superfund, EPA did not have a good system for judging the reasonableness of contractor charges.

EPA has taken positive steps to address some of these problems. For example, it has begun to develop a risk-based planning approach, has proposed new regulations for recovering more of its costs from responsible parties, and has placed new emphasis on monitoring contract costs.

These actions alone however are unlikely to fully resolve Superfund's problems. We have recommended additional steps, among them that EPA work with the Congress to reorder its budget priorities to reflect the environmental problems.

Also, EPA should place more emphasis on recovering program costs and the Congress should permit EPA to charge greater interest on its costs. Correcting EPA's longstanding contract management problems, of course, will take sustained management attention over many years.

With that, Mr. Chairman, I would like to turn it back to Mr. Wurtz, who will be discussing some broader high-risk issues.

Chairman PICKLE. Mr. Wurtz, the Chair recognizes you again.

STATEMENT OF DONALD R. WURTZ (Resumed)

Mr. WURTZ. Mr. Chairman, what I would like to discuss is what we call the cross-cutting issues that affect many of those programs. Despite a wide range of differences between the types of programs within the jurisdiction of this subcommittee, and all Federal programs for that matter, several common problems exist throughout the Government. Foremost among these are deficiencies in financial management, information systems management, and general management systems and activities.

First dealing with the financial management issues. Our financial audits of the larger Federal agencies regularly identify tens of billions of dollars in accounting errors as well as serious gaps in information. These problems undermine the Government's ability to effectively perform basic financial management functions, make informed decisions, and conduct adequate oversight of taxpayer funds.

Further, breakdowns in financial systems and controls waste billions of dollars and reinforce the deeply rooted public perception that the Government cannot effectively manage the taxpayers money. Finally, the Government has collected little data to monitor the cost of programs and to measure their performance. This

makes it extremely difficult to manage effectively, determine results achieved with public funds, and establish reasonable spending priorities.

We believe that the role of the Congress in some of these areas would be: one, to amend the Chief Financial Officers Act to require audited financial statements on an annual basis for all major agencies and the Government overall; two, to focus closely on the appointment of chief financial officers to ensure the qualifications of these individuals; three, to conduct annual oversight hearings using the CFO annual reports and audited financial statements; and four, provide the necessary funding support for financial reform efforts through investments in modern systems, personnel development, expanded financial reporting and auditing, and a strengthened Office of Federal Financial Management.

With respect to information systems management, it is interesting to note that the Government spends approximately \$20 billion annually on new technology and tens of billions more in running the current system. Despite the magnitude of this investment, agency after agency still lacks the critical information needed to analyze programmatic issues, manage agency resources, control expenditures, and demonstrate measurable results.

Top Federal executives continue to overlook the strategic role of information technology in reengineering business practices. Moreover, information resource managers typically lack the authority and resources needed to help their agencies modernize and simplify work practices, define information needs, and ensure the most effective use of information resources.

In addition, the Federal acquisition management and budget processes aggravate the situation. The demand for certainty in the systems development process leads project managers to downplay risks and problems resulting in missed benefits and misspent money.

In the information systems area, we believe the Congress should among other things, one, ensure that the Office of Management and Budget has appropriate leadership, staff resources and funding to strengthen its management function in information technology; two, focus closely on the confirmation of the Director of the Office of Information and Regulatory Affairs to ensure the qualifications of this individual; three, hold agency heads accountable for developing and following a strategic framework for reengineering business processes that involve the information systems function in decisionmaking; and last, support and monitor agency experiments in using innovative methods for budgeting and managing large-scale information technology acquisitions.

Turning to general management issues, over the years our work has identified management problems across the spectrum of Federal activities: Important program objectives are not being met. Funds are wasted. Major projects are over budget and behind schedule, and moneys due are not collected.

Efforts to correct these problems have resulted in incremental improvements in the overall system of management such as better cash and debt management, but in too many cases management problems persist long after they have been brought to light and long after agencies have agreed to correct them. This occurs be-

cause the piecemeal actions taken have not effectively addressed the root causes of these problems.

Three fundamental conditions that individually and collectively present formidable obstacles to good management are: One, diffused accountability for program results; two, a short-term mentality which deters good management; and last, Government machinery itself which inhibits results-oriented action.

It is time to address these problems and the Congress and the administration each has a role. In our transition reports on these management issues, we have laid out specific recommendations for the agencies, for the administration, and for the Congress. With respect to the Congress, we believe that it should: One, promptly consider legislation to require agencies to articulate their goals and missions, develop implementation plans and measures tied to their missions, and report annually on program results; two, ensure that OMB has the appropriate resources to ensure effective leadership in the management arena; three, continue support for the effective implementation of the CFO Act and the Pay Reform Act; and four, support agency innovation through the use of pilots and grants of flexibility in policy areas.

Mr. Chairman, that concludes my oral statement. At this time my colleagues and I would be glad to respond to any questions you or other subcommittee members may have.

[The prepared statement follows:]

United States General Accounting Office**GAO****Testimony**

Statement of Donald R. Wurtz
Director, Financial Integrity Issues
Accounting and Financial Management Division

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss 7 areas included within GAO's high-risk program and several crosscutting issues that affect these and other problem areas throughout the government. Specifically, I will focus on program weaknesses, agency corrective actions, and recommendations for future actions by the Congress, the administration, and agency officials in areas involving the Pension Benefit Guaranty Corporation, the Internal Revenue Service, Medicare, the Customs Service, Asset Forfeiture, the Resolution Trust Corporation, and Superfund. Many of the problems in these areas exist because of deficiencies in financial, information systems, and general management practices. Further, these problems are common not only to the 7 areas, but represent pervasive problems throughout the government.

The 7 are among the 17 high-risk areas that we have identified as particularly vulnerable to fraud, waste, abuse, and mismanagement. Over the 3 years since we began the high-risk program, we have conducted over 300 assignments in the 17 areas and issued about 450 reports and testimonies discussing our findings, conclusions, and recommendations for resolving the problems identified. Last month, we issued a high-risk series of reports that summarizes the results of our work in the 17 areas and a transition series that discusses major policy, management, and program issues facing the Congress and the administration.

As the Comptroller General stated in testimony on GAO's high-risk and transition series reports, the state of management in the federal government is not good. Too many principles, structures, and processes that may have worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world.

Time and again over the past decade, our management reviews and audits in federal agencies have shown that the processes and systems fundamental to well-run organizations are often not present. Most agencies have developed neither a strategic vision for the future nor good systems to collect and use financial and program information to gauge operational success and accountability. Many agencies do not have people with the skills needed to accomplish their missions.

By addressing these deficiencies as part of its oversight activities, this Subcommittee can play a significant role in reducing problems across the government. The Congress, the administration, and agency officials need to focus attention on these problems and respond quickly to them to reduce losses due to fraud, waste, abuse, and mismanagement and to improve the effectiveness of federal programs.

SUMMARY FINDINGS IN SELECTED HIGH-RISK AREAS

The following sections briefly describe problems in the 7 high-risk areas, agency efforts to correct them, and future actions needed.

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation's (PBGC) principal financial problem is a large and growing deficit caused by the terminations of large underfunded plans when the plans' sponsors go bankrupt. At the end of fiscal year 1991, PBGC's deficit--which had been accumulating since PBGC's inception in 1974--stood at an estimated \$2.3 billion. Under PBGC's most pessimistic projection, the figure could reach \$17.9 billion by 2001, if all current large underfunded plans with financially troubled sponsors (\$13 billion in underfunding) should terminate.

Two features in the design of the pension insurance program have made it hard for PBGC to control the risks it faces due to underfunded pension plans. First, the Employee Retirement Income Security Act's (ERISA) minimum funding standards do not ensure that pension plan sponsors' contributions will provide sufficient assets to cover all the promised benefits if the plans terminate. Second, the premiums that PBGC charges pension plans do not fully cover the risks that PBGC assumes. Premiums are only partially risk-related, allowing sponsoring companies and participants to engage in risky behavior with the knowledge that, if the plans terminate before benefits are fully funded, the responsibility for paying guaranteed benefits will fall to PBGC.

In addition to these two program design problems, PBGC has experienced weaknesses in its internal controls and financial systems—for example, the lack of a reliable method for estimating PBGC's liability for future benefits. PBGC also has serious problems with its premium reporting and collection system. Further, its efforts to identify and collect delinquent premiums, underpaid premiums, and related interest and penalties have been inadequate.

Another problem lies in the difficulties that the Internal Revenue Service (IRS) and Department of Labor have had in establishing effective ERISA oversight and enforcement strategies. The two agencies have limited resources relative to their responsibilities. At IRS, for example, about 1,000 revenue agents are responsible for ensuring the compliance of nearly 1 million pension plans. Both IRS and Labor have taken steps to improve their oversight and enforcement programs, but weaknesses remain. Moreover, inadequate Labor and PBGC oversight of pension plans' selections of insurance annuity providers is a factor that could result in the Congress expanding PBGC guarantees to cover insurance company annuities. This move could further weaken PBGC's financial condition.

We have long supported legislative action to strengthen the funding standards for defined benefit pension plans. Reducing underfunding would limit PBGC's future exposure and target the greatest threat facing the insurance program. We have also suggested that the Congress reexamine the program's premium structure, which could be made to better reflect the risks faced by the program. In particular, the premiums paid by underfunded pension plans should be more in keeping with the risks they pose to PBGC.

In addition, we have emphasized the need for PBGC to focus more attention on its management policies and systems and for IRS and Labor to improve their oversight and enforcement programs. While all three bodies have taken steps in these areas, we have made a number of recommendations that have not been fully addressed. These would correct system and control weaknesses in PBGC's liability estimation and premium and accounting operations and enhance ERISA oversight and enforcement efforts.

Internal Revenue Service

The Internal Revenue Service is responsible both for routine tax collection and for pursuing delinquent payments. Although IRS routinely collects about a trillion dollars each year, its efforts to collect delinquent taxes have been inefficient and unbalanced. As a result, billions of dollars in taxes remain uncollected, representing a serious loss of revenue for the government.

Several problems have interfered with IRS's ability to collect unpaid taxes. IRS's records are inaccurate and insufficient; its collection process is lengthy, antiquated, rigid, and inefficient; it has had difficulty balancing collection efforts with the need to protect the taxpayer; its decentralized

structure tends to blur lines of responsibility and accountability; and it does not have enough information to allocate staff effectively.

While IRS has begun to develop some much needed information on the accounts receivable inventory, taken a step toward establishing a unified collection strategy by appointing an accounts receivable executive officer, and included collection goals in its strategic planning process, many areas have yet to be addressed. These include gathering more and better data and removing organizational impediments to collections. Further, the Congress could revisit the issue of the appropriate balance between the need to protect taxpayers and the need to collect delinquent tax debts.

Medicare

In recent years, the Medicare program has lost billions of dollars to waste, fraud, and abuse. In 1991, the program enrolled about 35 million beneficiaries, processed about 600 million claims, and paid physicians and other providers over \$110 billion in medical benefits--about 15 percent of all the money spent on health care in the United States.

The Health Care Financing Administration (HCFA), which administers the Medicare program, relies on numerous contractors to process claims and to protect program funds through review activities called payment "safeguards." However, HCFA's inability to properly manage contractors' safeguard activities and too little money earmarked for these activities have left Medicare dollars exposed to loss and waste. For example, we found that

- contractors paid an estimated \$2 billion in claims that should have been paid by other health insurers and
- hospitals owed Medicare over \$170 million in overpayments, but contractors had done little to recover the money. Moreover, HCFA was unaware of contractor inaction because it had no systems to monitor this information.

Medicare is also vulnerable to exploitation for other reasons. These include (1) payment policies that permit excessive reimbursement rates for certain services, such as high-tech and laboratory services, and (2) loose controls over who can bill Medicare, making the pursuit of fraudulent providers difficult.

HCFA needs to exercise stronger leadership in managing the Medicare program. It needs to improve oversight of contractors' activities aimed at reducing waste, fraud, and abuse. It also needs to reduce excessive payments and to tighten controls over who is allowed to bill the Medicare program. Finally, the Congress should modify budget procedures--that is, allow increased safeguard funding without having to cut spending elsewhere--to allow adequate and stable Medicare contractor funding for safeguard activities.

The threat of medical insurance fraud is endemic not just to Medicare but also to the entire health care system. We have asked the Congress to consider establishing a national health insurance fraud commission--composed of public and private insurers, among others--that would develop recommendations for combating health care fraud and abuse.

Customs Service

Customs cannot ensure that it is meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods. Customs did not detect about 84 percent of the estimated trade law violations in imported cargo during fiscal

year 1991. Moreover, it has experienced declines in the percentage of estimated cargo violations detected since calendar year 1988.

Furthermore, Customs' financial management system has a range of weaknesses, including the absence of reliable information on operating costs and the status of accounts receivable, a lack of data integrity in the general ledger, contract payments made without proof of delivery or acceptance of goods and services, and weaknesses in its internal controls over the payment of overtime to Customs inspectors.

Customs lacks an effective strategic management process that is capable of guiding its operations and establishing accountability for performance. Its current 5-year plan does not set forth a clear objective for its trade enforcement activities, prioritize its numerous objectives, or adequately articulate a means of fully automating customs transaction processing. Further, Customs is experiencing related weaknesses in information management, financial management, human resource management, performance measurement, and organizational structure. Left uncorrected, these weaknesses could hinder Customs' capacity to meet the challenges of the world's changing trade environment.

Over the past several years, Customs has achieved some successes. The trade community, for example, has agreed that the Automated Commercial System, the core information system for customs transaction processing, has been effective in meeting its needs. Furthermore, Customs has been able to achieve broad agreement among the diverse interests within the trade community in support of legislation to enable Customs to proceed toward full automation of the customs transaction process.

As Customs pursues its plans to fully automate customs transaction processing, it must be sure to develop the management processes needed to meet its trade enforcement responsibilities. To its credit, Customs is actively addressing the management problems we and others have identified. It has initiated a program of financial reforms and established task forces to address needed improvements in its trade enforcement efforts, strategic management processes, and information and human resources management.

The success of these efforts will be influenced by how well Customs (1) develops and gains acceptance for a comprehensive trade enforcement strategy, (2) corrects its long-standing financial management problems, and (3) receives the support and oversight it needs from the Congress and the Office of Management and Budget to help it focus on key strategic and organizational issues and achieve fundamental management improvements.

Asset Forfeiture

The Department of Justice, the Customs Service, and the Congress have taken actions to eliminate several major asset forfeiture problems. The Congress established asset forfeiture funds at both agencies, into which proceeds from seizure activities are deposited and are used to finance program expenses. Further, Justice and Customs have established policies to minimize delays in depositing seized cash and have established systems for overseeing seized cash operations. Finally, other agencies have made considerable progress in establishing systems to produce the reliable seized and forfeited property inventory data needed to make informed management decisions.

Now that major operational problems relating to the management and disposition of seized and forfeited assets have been identified and corrective actions have been initiated, sustained oversight is needed to see these problems through to resolution. In addition, the incoming Attorney General and the Secretary of

the Treasury should continue to pursue a recent initiative involving consolidation. In 1991, we reported that the two agencies could reduce their program administration costs by about 11 percent annually by consolidating the management and disposition of their noncash seized property inventories. The recommended consolidation has not yet taken place, but the two agencies have agreed to a pilot program.

Interest in the asset forfeiture programs is now broadening to include the question of whether the agencies are applying the asset forfeiture laws appropriately and effectively. Adequate safeguards are needed to ensure that federal agencies do not become overzealous in their use of the asset forfeiture laws or too dependent on the funds derived from seizures. The system must include appropriate checks and balances; otherwise, asset forfeiture programs run the risk of being seriously curtailed.

Resolution Trust Corporation

In August 1989, Congress established the Resolution Trust Corporation (RTC) to resolve hundreds of failed savings and loan institutions and dispose of their assets. RTC has discharged some of its resolution and asset sales responsibilities fairly well. But poor planning and execution of real estate disposition strategies, problems with the contracting system, and inadequate information systems have hampered its overall performance. Deficiencies in these areas reduce the amount of money RTC recovers through asset disposition and increase the likelihood that taxpayers will need to cover additional costs.

Of the several factors contributing to the risks at RTC, two are outside of its control. The first is the sheer amount of taxpayer funds involved in the program due to the inherent losses associated with failed thrifts. Estimates of the eventual cost to taxpayers of the savings and loan cleanup exceed \$300 billion. The second is the difficult economic environment that has existed over the past 3 years. The demand for whole thrifts has been limited, real estate markets have declined, the availability of credit to finance asset purchases has been uncertain, and the economy as a whole has been in a recession. Further, RTC's asset inventory for both financial and real estate assets is becoming increasingly concentrated in hard-to-sell categories. As a result, the final cost of the cleanup will depend not just on how well thrift regulators and RTC discharge their responsibilities, but also on the state of the economy in general.

Other factors such as disposition approaches, the contracting system, and asset information systems are within RTC's control. RTC's contracting system--the means through which RTC pursues its mission--is troubled by poor planning and oversight. RTC does not adequately define what services are needed, the scope of work, and the types of contracts that would best accomplish these ends. Moreover, it has difficulty overseeing the tens of thousands of contractors who manage and dispose of billions of dollars in assets on its behalf.

RTC's asset information systems are inadequate. In March 1992, we reported that RTC had not adequately defined its business strategies for managing and selling assets; matched information needs with these strategies; or developed systems to provide the timely, accurate, and complete information needed to manage and evaluate disposition programs and oversee contractors. Since then, RTC has taken steps to correct these problems, but much work remains.

In addition to these concerns, RTC's efforts have been hampered by repeated funding disruptions. It has run out of funds and has had to stop resolving thrifts three times since it was established. Certain of its operations have not been funded since April 1, 1992. As a result, thrifts under RTC's control

have continued to post losses that will contribute to the overall cleanup costs.

Finally, although RTC has made progress in improving its operations and cleaning up the problems it inherited, many problems are likely to remain after 1996, when RTC is scheduled to close. Thus, the total cost of the cleanup also depends on the effectiveness of structures established to deal with thrift losses occurring after RTC relinquishes its resolution responsibilities in 1993 and all of its other responsibilities in 1996. In large part, the condition of RTC's accounting and management information systems at the time of turnover will determine how effectively the Federal Savings and Loan Insurance Corporation Resolutions Fund will manage the remaining responsibilities.

We have made recommendations to RTC for improving its asset disposition and contracting activities and its information systems. RTC is implementing many of these recommendations, but additional actions are needed.

We continue to believe that RTC should be given the additional funds needed to pursue its resolution activities. Any further delay merely increases the eventual cost of the savings and loan cleanup.

Superfund

Disposal of hazardous waste at thousands of sites across the country has contaminated these sites and endangered nearby communities. The Superfund program was created in 1980 to clean up the most dangerous of these sites. Originally given \$1.6 billion and 5 years to complete the job, the program has twice been reauthorized and is now expected to run indefinitely.

The estimated costs of cleaning up Superfund sites have also grown rapidly over the past 12 years. One estimate puts these costs at \$300 billion, in 1990 dollars, over the next 30 years. Hundreds of billions more will also be incurred for cleaning up the federal government's hazardous waste legacy. Preliminary estimates for the Department of Defense and the Department of Energy, alone, total close to \$200 billion.

An effort this costly should be justified on evidence that expenditures will result in commensurate benefits to human health and the environment. But the federal government lacks an adequate system for assessing the risks posed by Superfund sites relative to other environmental problems or even to compare one site with another. For instance, although funds allocated to federal agency cleanups have increased greatly during the past 5 years, the government does not have an effective way to measure the relative risk of these sites across agency lines or to assign priorities to these cleanups.

Two program management problems are also putting Superfund resources at risk. First, although the Superfund law obligates parties who contaminated Superfund sites to reimburse the Environmental Protection Agency (EPA) for its cleanup costs, EPA has recovered only a small fraction of these costs. As of September 30, 1992, it had collected just 10 percent of the \$5.7 billion that it had classified as recoverable from responsible parties. Because EPA has not properly tracked its recovery efforts, it cannot explain this low rate of repayment. We have reported that EPA's failure to control collection efforts or seek full recovery of its costs have limited collections. For example, it has excluded from recovery efforts over \$1 billion of indirect costs. In addition, the Superfund law's restrictions on charging interest have reduced potential recoveries.

Second, although it relies heavily on contractors to perform much of its cleanup work, EPA until last year ignored long-standing deficiencies in the management of its contracts. For example, although EPA relies heavily on cost reimbursable contracts to operate Superfund, it did not have a good system for judging the reasonableness or propriety of contractor charges. Moreover, by too liberally indemnifying contractors against claims for negligent damages, EPA had exposed Superfund to potentially serious losses.

EPA has taken positive steps to address some of these problems. For example, it has begun to develop a risk-based planning approach that would give priority to problems posing the greatest danger. It has also recently proposed new regulations for recovering more of its costs from responsible parties, placed new emphasis on monitoring contract costs and published a new contractor indemnification rule that will greatly reduce its vulnerability to damage claims from contractor negligence.

These actions alone, however, are unlikely to solve Superfund's problems. We have recommended additional steps, among them that EPA work with the Congress to reorder its budget priorities to reflect the relative risks of environmental problems. Also, EPA should place more emphasis on recovering program costs--for instance, by working to recover more of its costs and by keeping better records of negotiations--and the Congress should permit EPA to charge greater interest on its costs. Correcting long-standing contract management problems will take sustained management attention for a period of years.

SOME PROBLEMS PERVERSE FEDERAL AGENCIES

Despite the wide differences in the types of programs within this Subcommittee's jurisdiction, and all federal programs for that matter, these programs share several common problems. Foremost among these are deficiencies in financial management, information management, and general management systems and activities.

Financial Management

The federal government manages hundreds of programs, many of them individually larger than our nation's biggest publicly owned corporations, without adequate knowledge of their financial condition and results achieved. Widespread financial management weaknesses cripple our leaders' efforts to effectively manage and oversee federal programs.

The government can no longer afford to operate this way. It must address three major areas of weakness: inadequate or erroneous financial data, unreliable financial systems and controls, and the general lack of results-oriented reports on financial condition and operating performance.

Our financial audits of the larger federal agencies regularly identify tens of billions of dollars in accounting errors as well as serious gaps in information. These problems undermine the government's ability to effectively perform basic financial management functions, make informed decisions, and conduct adequate oversight of taxpayer funds. Further, breakdowns in financial systems and controls not only waste billions of dollars, they also reinforce the deeply rooted public perception that the government cannot effectively manage the taxpayers' money. Finally, while the government has a flood of cash-based information, it has collected little data to monitor the cost of programs and to measure their performance. This makes it extremely difficult to manage effectively, determine results achieved with public funds, and establish reasonable spending priorities.

To address the historic lack of priority given to financial management, the Chief Financial Officers (CFO) Act established a much needed leadership structure consisting of a new Deputy Director for Management and a Controller in the Office of Management and Budget and professionally qualified CFOs in all major departments. These CFOs are to report directly to agency heads and are to be given broad authority for financial management.

Without concerted action to implement the CFO Act--including attention by the Congress and the administration--and strong support by agency program managers, the government will remain devoid of accountability, hampered in its ability to make informed decisions, and embarrassingly unable to explain the results achieved by the use of trillions of dollars collected from the nation's citizens. The Congress made its expectations clear when it enacted the CFO legislation, and its continued support and additional oversight and actions by the administration are critical.

We believe that the Congress should

- amend the CFO Act to require audited financial statements on an annual basis for all major agencies and the government overall,
- focus closely on CFO appointments to ensure the qualifications of these individuals,
- conduct annual oversight hearings using the CFOs' annual reports and audited financial statements, and
- provide necessary funding support for financial reform efforts through investments in modern systems, personnel development, expanded financial reporting and auditing, and a strengthened Office of Federal Financial Management.

Information Systems Management

The federal government spends over \$20 billion annually on new technology and tens of billions more in running current systems. Despite the magnitude of this investment, agency after agency still lacks the critical information needed to analyze programmatic issues, manage agency resources, control expenditures, and demonstrate measurable results.

Sound information systems management is essential for realizing productivity and effectiveness gains achievable through today's technology. However, top federal executives continue to overlook the strategic role of information technology in reengineering business practices. Moreover, information resource managers typically lack the authority and resources needed to help their agencies modernize and simplify work practices, define information needs, and ensure the most effective use of information resources.

Federal acquisition management and budget processes aggravate this situation. The demand for certainty in the systems development process leads project managers to downplay risks and problems--resulting in missed benefits and misspent money. Solving these problems will depend heavily on the ability of top executives to both develop a strategic framework for change and effectively marshal their agencies' information resources talent.

In the information systems area, the Congress should, among other things,

- ensure that OMB has appropriate leadership, staff resources, and funding to strengthen its information technology management function;

- focus closely on the confirmation of the Director of the Office of Information and Regulatory Affairs to ensure the qualifications of this individual;
- hold agency heads accountable for developing and following a strategic framework for reengineering business processes that involves the information systems function in decision-making; and
- support and monitor agency experiments in using innovative methods for budgeting and managing large-scale information technology acquisitions.

General Management

Over the years, our work has identified management problems across the spectrum of federal activities: important program objectives are not being met, funds are wasted, major projects are over budget and behind schedule, and moneys due are not collected. These problems have existed for many years and efforts to correct them have resulted in incremental improvements to the overall system of management, such as better cash and debt management. In too many cases, management problems persist long after they have been brought to light and long after agencies have agreed to correct them. This occurs because the piecemeal actions taken have not effectively addressed the root causes of these problems.

Three fundamental conditions individually and collectively present formidable obstacles to good management:

- diffused accountability for program results,
- a short-term mentality which deters good management, and
- government machinery which inhibits results-oriented action.

It is time to address these problems, and both the Congress and the administration have a role. For example, the Congress should

- promptly consider legislation to require agencies to articulate their goals and missions, develop implementation plans and measures tied to their missions, and report annually on program results;
- ensure that OMB has the appropriate resources to ensure effective leadership in the management arena;
- continue support for the effective implementation of the CFO Act and the Pay Reform Act; and
- support agency innovation through the use of pilots and grants of flexibility in selected policy areas.

CONCLUSIONS

The Department of Housing and Urban Development scandal of the 1980s is an example of what can go wrong when management disregards its responsibilities and other oversight mechanisms do not work as expected. History shows that pervasive problems that cost the taxpayer billions of dollars exist across the spectrum of federal activities and that federal efforts to eliminate these problems, including legislative mandates, have generally fallen short of their expectations.

Over the past 3 years, initiatives by the Congress, the administration, and federal agency officials suggest a renewed interest in and willingness to face up to widespread and costly problems in federal programs. However, it is too early to evaluate the impact of these actions on the condition of these

programs--their ability to reduce program vulnerabilities to fraud, waste, abuse, and mismanagement; and their ability to reduce or eliminate losses and make the programs more efficient and effective.

Clearly, the government cannot afford to falter in its efforts to bring these initiatives to completion and to build upon its successes while learning from its mistakes. It must develop new and innovative ways to strengthen federal programs and rekindle the American taxpayer's faith in its ability to manage programs.

The Congress must provide the necessary focus on and attention to problems by conducting annual oversight hearings. Among other things, this oversight process should focus on the reports and audited financial statements required by the Chief Financial Officers Act, agency management's progress in correcting material weaknesses in program internal control and accounting systems, and federal agencies' efforts to develop and implement performance standards against which their efficiency and effectiveness can be measured. Mr. Chairman, hearings such as this one today are critical to ensuring that the problems the government faces are corrected in a timely and effective manner.

In addition to the Congress, the administration--the President and OMB--must be a force in ensuring real progress. If the administration will do its part and intensify efforts to deal with the specific high-risk areas we and OMB have targeted and adopt the overall recommendations we have made in the high-risk and transition series reports we issued last month, we should see a rapid reduction in both the number and severity of high-risk problems and in the incidence of fraud, waste, abuse, and mismanagement.

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Mr. Chairman, this concludes my prepared statement. At this time, my colleagues and I will be glad to respond to any questions you or other Subcommittee members may have.

Chairman PICKLE. Mr. Wurtz, we thank you and I thank each one of the panelists for your statements and for your participation in this hearing.

The Chair wants to recognize the Members for questions and comments. I am sure the Members will want to ask specific questions. First let me say that I find this testimony very helpful. Your recommendations have been broad and pointed. It applies not only to the work of this subcommittee, but the Ways and Means Committee in the seven areas you have listed. But I think it also applies to all the committees of Congress and what we should expect in the agencies down the street.

We struggle with this problem yearly and we all would admit that together we haven't done a very good job of managing this huge Federal bureaucracy. If we take the recommendations you have made, surely we will have a smoother, more cost-effective operation of our Federal Government.

It is a little embarrassing to sit here and hear you point out all the weaknesses and the loss of Federal dollars because we are not holding a tight rein on these agencies, but it also is equally uncomfortable here to realize that it takes time to do all these things. It is one thing to put them on paper and another for us to carry them out. But I don't quarrel with your objectives and don't argue with your recommendations other than to set about trying to go to work on them.

We will make this report available to the full committee and to other leaders of Congress because I think this is something everybody ought to realize. You are making recommendations in areas affecting Ways and Means, but you are broader in saying specifically what Congress ought to do.

I think I will say to you also, we expect a recommendation from you not just when we call you here to testify, but to tell us on an ongoing basis who is not doing a good job and where waste is taking place and what we ought to do.

Your agency probably can point out more deficiencies than any agency on the hill. Prompt recommendations are a reminder to us what is happening, but together I think we can accomplish many of these recommendations you have made because they go to the heart of how well can we run the Government.

I think we could save billions with better management and control of our agencies. I appreciate these recommendations. Congress and the agencies together have to do a better job. I think this report lays out the work for this committee and lays out the work for perhaps the entire Congress for the coming year.

Now, the Chair wants to recognize Members in the order in which they arrived at the committee. If any Member needs to make statements or have other sessions, I will try to recognize them—otherwise I will go down the list.

Let me first recognize Mr. Houghton and then Mr. Rangel.

Mr. HOUGHTON. I have four quick questions. I don't think they require elaborate answers.

To Mr. Wurtz, you are talking about the lack of objectives and goals and the financial management and general management. In 1982, I came down as part of the Grace Commission and my background is in accounting. I couldn't figure out the Government ac-

counts at all. There were 35 accounting systems. We had to reconstitute the Government books to understand them.

So before you tackle the financial management and the goals and objectives in general management, you have to have a single system, simple and understandable and monitored.

Second question—as far as Mr. Delfico is concerned, you suggested that higher premiums should be paid. My question is, is the PBGC capable of administering a new premium structure?

Ms. Stathis, you talked about the IRS and the outdated system. My contention is, one of the reasons that technology is not brought to bear more in IRS is they can't afford it. You cannot impose brandnew expenditures upon their budget the way it is now. Their equipment is not only outdated but you can't get spare parts for them.

Last, in terms of Medicare and fraud, the question I have is, is it a question of quality? Is it doing it right the first time, a question of beating the system or just a question of poor coordination?

Mr. WURTZ. Let me start to try to answer your questions.

One of the problems is that effectively the Federal Government is now managed by the budget process and the reality is that once a year's budget has been enacted, everybody forgets about what actually happens. So we have tended to ignore the implementation part of the management of the Federal Government and unfortunately when it comes to budget time, very few program managers are willing to give up funds to produce meaningful financial reports that show the actual results.

Time and time again we go into agency after agency and I must say that poor management exists throughout the Government. The state of the Federal Government is in poor shape from a management perspective and much of this relates to the fact that we do not do what I would call the basic blocking and tackling that is needed to run decent accounting and information systems. And unfortunately, because of the short-term mentality that exists in the political leadership that comes in, the average Presidential appointee still lasts 22 months, many of them do not come in with the idea "I am here to manage." Most come in with the idea of "I am here to make policy."

We need this new administration, with respect to at least the chief financial officers and perhaps even up to the deputy level, to be willing to appoint people that are there for the express purpose of managing the agency and getting it in shape. Because once we get it in shape and once we provide adequate information, then real decisions can be made as to whether or not the programs are really accomplishing what the Congress intends for them to accomplish.

I can't agree more with you that we also need to have good basic core systems to manage the Federal Government.

Mr. DELFICO. Mr. Houghton, there is just one point that I would like to make about the PBGC premiums. What we are in favor of is making premiums more risk related rather than raising premiums overall, and designing a system that would represent the risk that an underfunded plan poses to the system. Would any change in premiums have effect on the PBGC operations as they stand today? I think it would have a major effect on their operations.

Their system has been down for quite sometime. They are making vast improvements, however. In 1988, the system went down when the variable premium rate was established and didn't operate for 2 years. They are making some premium calculations manually, but they are making progress in that area.

Sometime in the future they may need a premium increase.

Ms. STATHIS. You asked whether the systems modernization has been proceeding too slowly because of lack of budget funds. As far as I know that is not a problem and has not been a problem for the last 5 years. OMB in the previous administration designated that system as a high priority system. This subcommittee and both Appropriations Committees have insured that IRS had all the funds it asked for to proceed with that modernization.

Ms. SHIKLES. In the Medicare program this year, Medicare will pay about 700 million bills for services. Most of these claims won't even be looked at. The problem is that Medicare has seen about a 40 percent jump in claims just since 1989, yet has had a decline in the review activities in terms of seeing that these claims are appropriate. If you visit some private companies, which I have, and you look at their systems for trying not to pay the claim in the first place if it is inadequate and the checking systems they have to protect their dollars, and then you look at Medicare systems, you will see how far behind we are in this program. .

Mr. HOUGHTON. Thank you.

Chairman PICKLE. The Chair is going to turn to Mr. Rangel next because he has legislation on the floor. He needs to be excused.

Mr. RANGEL. I appreciate your support and your friendship including the legislation we are talking about. I thank you for the courtesy extended.

I wanted to take this opportunity to thank the General Accounting Office for the excellent job that you do for the Nation through the Congress. I want to thank the chairman for giving the new Members this bird's-eye view of the jurisdiction of the committee and to let them know that individually as well as through our chairman that they can come to you and ask for reports on very complex matters that would assist them in being better members of the committee and the Congress.

I don't know whether I can support the chairman's recommendation that you go out on your own and oversight this new administration, but I am certain that if you do find waste and mismanagement that you will find Members on both sides of the aisle that would be only too glad to have you look into this rather than to have it appear that you are on a partisan mission, which over the years you have managed to conduct your business in a bipartisan manner.

I wanted to laud you for the work that you are doing and I look forward to working with you.

Thank you.

Chairman PICKLE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

I too appreciate this opportunity to hear from the GAO and, as a new Member, to start to become acquainted with the issues that you have raised in your report. Obviously, not in this meeting or any single meeting can I or any new Member hope to comprehend

the length and breadth and depth of what you are talking about today. It is a good beginning.

You said that one overriding problem that runs throughout the discussions that we have had today and that is one source of complaint or criticism of the agencies' operations we talked about today that may lead to fraud, waste, and abuse is diffused accountability. I wish you would take a minute to explain that to me, and particularly to make some sense out of it as relates to each of the seven agencies as well as how this Congress might attack this issue of diffused accountability.

Mr. WURTZ. The issue here is the diffusion of accountability within the Federal Government. No individual official is responsible for the outcome of a particular area. The only area of accountability that we adhere to very closely within the Federal Government is in the expenditure of the budget and funds control, that is, as to whether or not those funds are actually expended, and to also assure ourselves that they are not over expended.

But in terms of whether they were spent efficiently or effectively, we have little accountability. In order to have somebody be held responsible and have, if you will, a contract for holding the individual responsible, then the individual also has to have the authority to be able to manage or have some control for that which we hold them accountable. And, in many respects many of the rules and regulations effectively inhibit management, and so therefore you end up having dozens of signatures on everything, more controls with little improvement.

We spend much more time getting control after control as opposed to really holding individuals accountable.

Maybe Mr. Gadsby could expand on this a little as well as Ms. Stathis.

Mr. GADSBY. Let me talk about that because I think one of the real obstacles to running the Government more efficiently is the incentive structure that exists within the Federal system. Basically, the structure provides incentives to manage dollars, people, and sort of make everyone measure up to the same rules. In other words, we spend a lot of time accounting for and managing inputs and not enough time really focusing on the results that we are trying to achieve, what kind of flexibility we should be giving our managers and what kind of we should be giving our managers to let them focus more on what their objectives are, what results they want to achieve and move in the direction of managing to achieve those results.

We have to think of management in different dimensions and the dimension we need to focus on is accountability for results and how we can give people the tools and flexibility they need to get those results in the Government environment.

Mr. JEFFERSON. Particularly in the area you have given testimony about today, Customs and—well, let's say Customs. If we were going to try this idea of limiting the diffusion of accountability in this one area, can you suggest how we would go about doing that, giving a practical example?

Mr. GADSBY. Yes, I can. In the Customs Service, one of the things that we found when we did our management study, namely, of the overriding weakness, was they really didn't have any strategic

management process for guiding the operations of the agency. They didn't have a good trade enforcement strategy or clear objectives about what they wanted to accomplish. They weren't prioritizing their objectives and they didn't have good information on their performance as far as carrying out their trade enforcement mission.

So, to get better accountability, one of the first things they have to do is use a process of strategic planning to lay out what they want to achieve and then put in place the necessary processes and mechanisms and so forth to go about achieving that.

To the credit of the people in the Customs Service, in response to this committee's oversight efforts as well as our management review, they have gotten the word. There is a great deal more that is going on today to articulate a trade enforcement strategy and begin implementing it. We are also trying to get them to develop more realistic measures of performance. So I think that is moving in the right direction.

To give another example if I can, I would like to take a moment and mention the seized and forfeited property program. When we began our early work on this program, it was basically funded out of appropriations. Also, managing the seized property was clearly not viewed as an integral part of the law enforcement mission of the agencies involved. In short, there were really no incentives whatsoever to manage this property efficiently. The agencies got appropriated funds, and they sold the property for what they could get, and away it went.

In various hearings, Mr. Pickle used to talk about the problem; namely, that we were losing money on sales of seized property. What happened was that the Congress set up a forfeiture fund where the moneys the agency got from those properties went into the fund and part of those moneys could be used to further the objectives of the program.

So, there was suddenly built into the program some incentives for managing it better and running it more efficiently. It is these kinds of incentives and flexibility that we need to build in on a broader scale to other operations of Government, Mr. Jefferson.

Chairman PICKLE. Mr. Hancock.

Mr. HANCOCK. Thank you very much, Mr. Chairman.

Earlier this morning, I was in the office and I got in real early working on my income taxes. Frankly I felt pretty good because after I got it all worked out, I don't think I am going to have to borrow too much money to pay them this year. But after listening to this conversation, you tell me what is happening to that money after it gets to Washington, D.C.

This is quite an indictment of 7 major departments and another 10 I think in your total of 17. I would like to ask the question to Mr. Wurtz—if in fact this was a report made by some investment financial adviser on the stock exchange about a company, what do you think would happen that the stockholders would do to the management of that company? What would happen to the value of that stock on the stock market?

Mr. WURTZ. I think what has happened to the stock of IBM and the management of IBM and Westinghouse and the management of other companies—they would be discharged.

Mr. HANCOCK. Would you agree that the management of Westinghouse and Sears have the authority to eliminate 60,000 employees?

Mr. WURTZ. They do.

Mr. HANCOCK. Do we have that authority, the administration, if somebody took over a department—you elected a new President, but is there somebody just under that—

Mr. WURTZ. I think that would be very difficult. Certainly the Congress could take action to reduce the employee work force substantially, but as far as an individual manager having that ability, except for making across-the-board cuts and using that to move on down the work force, that is pretty difficult to do.

Mr. HANCOCK. Now we have gotten to what would appear to me is in many cases is a personnel problem. We have managers that we are asking to manage that don't have any authority on who they manage, is that correct?

Mr. GADSBY. They have some authority, but it is clear that managers in the Federal environment don't have the flexibility that managers in the private sector would with respect to the termination or removal of employees.

Mr. HANCOCK. Is that an issue that could help solve the problem if in fact there was a way?

Mr. GADSBY. That certainly is an area where more efficient and effective management could be achieved with greater flexibility or greater ability to hire the people that were needed to carry out the missions and the tasks of Government. Greater flexibility in that area would be beneficial.

Mr. HANCOCK. If you put somebody in charge and call him a manager and then tell him that he doesn't have any flexibility, really, how can you hold him responsible for not being able to manage?

Mr. GADSBY. Maybe you shouldn't. There are a wide range of obstacles in addition to the personnel laws. There are certain other laws, namely certain statutes that contain provisions that prohibit agencies from hiring people above a certain number, and those that prohibit agencies from moving people around in different field offices.

So, it is not a single thing. Rather, is a complex web of problems related to personnel or human resources management that complicate the Government's ability to be more effective in this area.

Mr. HEMBRA. Mr. Hancock, let me add something. I am not sure that a wholesale firing of the Federal work force is the solution to the problem. If we look at the Superfund program, that program has a lot of problems, without question. And when you look back as to what has caused that to occur, in a lot of cases it is the squeaky wheel gets the grease.

Wherever the agency believes that someone wants attention paid, that is where the work force is going to pay attention, and quite honestly, when you look at Superfund, Congress has had a role in that.

There was a sense of urgency to getting sites cleaned up. Well, ironically, ironic in the sense that there haven't been a lot of sites cleaned up, the agency went full bore on trying to focus on how do

we get these sites cleaned up, so things like how much money was being spent became a secondary issue. It was let's get it done.

When I talked about a very low rate of recovery on costs that EPA has expended, but have yet to get back from responsible parties, it is because EPA was focusing its attention primarily on trying to get responsible parties to clean up the mess themselves or to get the people within EPA to get the contracts and get the sites cleaned up, so what fell by the wayside—not much attention being paid to recovering the Federal Government investment in that process which the law said it should do.

So I think we have to be careful that we don't throw the baby out with the bath water and make sure that we focus on helping the agencies understand where they need to be focusing their attention and holding them accountable once that is done.

Mr. HANCOCK. I hope you understand I am not recommending the wholesale firing of the Federal work force, but I also know that one of the most effective things of management is to be able to determine who is working within that team. I have got a lot of good friends that work for the Federal Government, and there are a lot of dedicated people that work for the Federal Government and I hear from them regularly making comments about "look, I see these things that are wrong, but yet it seems we can't do anything about it." This is why I bring it up.

Unless the management can make decisions, then they can't manage, and it seems in many cases it is almost impossible for the managerial employees that I have talked to to make these necessary decisions. I think that is reflected in every one of these reports.

Thank you, Mr. Chairman.

Chairman PICKLE. Thank you, Mr. Hancock.

Let me make a comment. We need to make these changes and recommendations together. In the Superfund, it was the findings of EPA's inspector general that looseness and inefficiencies were taking place in the Superfund. GAO agreed with that.

When we had the hearings, we were startled to find out we spent \$10 billion over 10 years and only cleaned up 66 or 67 sites. That is embarrassing; yet when we had the hearings, EPA began to defend itself and slip and slide and try to explain why.

I have come to the conclusion that a complete remodeling of the Superfund must come about. That doesn't mean necessarily firing the whole Superfund staff, but you get the feeling that is what you ought to do because you have spent 10 years and you have gotten very little from your money.

We need testimony from your agency, but you have smoke coming out of the top of the mountain saying I observe this. It ought to be pursued. When we had our hearings, your criticism was somewhat muted, in my judgment. We need to do it together. We don't do anything about Superfund, but that is an example.

In my judgment we ought to start all over again but first we have to decide what effects Superfund sites have on national health. Your testimony today in effect said that we as a Congress have to decide what would affect national health.

When we do that, we are going to cut down that \$300 billion you say we need to a more workable figure. We are not going to get

that for Superfund when they have whizzed away \$10 billion and have nothing to show for it. We have to work together in a practical sense.

I hope we do that and it is not just criticism. You have recommended that we make those decisions and proceed.

Mr. Kleczka.

Mr. KLECZKA. Let me thank the panel from GAO for being the bearer of bad tidings, although it is important to discuss these things and to try to seek a resolve to some of the problems.

I would like to turn to RTC and direct my inquiries to Mr. Gianni. In your testimony, you indicate that additional working capital will be needed and also we are aware that additional dollars will be needed for actual resolution of failed thrifts. Last year the Congress failed to pass legislation to provide additional money for the RTC.

Do you have a guesstimate as to what is needed for the actual resolve portion of the savings and loan problem and could you indicate to the committee whether or not the RTC is out of money today and waiting for that additional transfusion of more dollars?

Mr. GIANNI. The RTC is not out of money. It has about \$2 billion in loss funds available. In addition, it has working capital borrowing authority to buy assets from the failed thrifts. At the present time, RTC also has about \$37 billion outstanding from the Federal Financing Bank.

For the over 600 institutions that have been resolved, RTC has been using a combination of the borrowed working capital and money authorized by the Congress. At the present time, RTC has 81 institutions but it does not have the necessary loss funds to pay off the depositors.

They have plenty of borrowing authority, but they don't have sufficient loss fund authority.

Mr. KLECZKA. You seek legislation to have Congress provide for those funds?

Mr. GIANNI. Yes, sir. The current legislation says RTC will not take over any more thrifts after September 30, 1993. So RTC currently has 81 thrifts plus anywhere from 60 to 80 additional thrifts that might come in before that period of time depending on how that will need to be resolved.

RTC estimates that in order to accomplish its objectives they will need an additional \$25 billion from the Congress. Now, I must caution that this sum only takes care of RTC's responsibilities through September 30, 1993, and it does not take care of any thrifts that might fail subsequent to the September 30 date. As the legislation is currently written, those institutions will be the responsibility of the FDIC under the new Savings Association Insurance Fund (SAIF).

As we have reported in the past, that fund has not had sufficient time to build up enough reserves. Therefore, if we have a lot of or a number of failures occur subsequent to September 1993, the FDIC may have to use some of the funds that FDICIA authorized last year to help the Bank Insurance Fund. Or FDIC might have to come back to the Congress and ask for additional funds. The administration—

Mr. KLECZKA. What kind of money in the FDICIA would they avail themselves of?

Mr. GIANNI. FDIC has \$30 billion in borrowing authority for losses and \$40 billion for borrowing authority for working capital.

Mr. KLECZKA. And that is the dollars that the industry indicated that should they need it they will pay it back.

Mr. GIANNI. That is correct.

Mr. KLECZKA. As a member of the Banking Committee, I didn't believe that statement, and I don't believe it now. You indicate that up to this point in time \$37 billion—

Mr. GIANNI. The \$37 billion is what is outstanding at this time. At one point in time, RTC had used up \$64 billion in borrowing authority. They have repaid \$27 billion. So the current balance is \$37 billion.

Mr. KLECZKA. Is it anticipated that that working capital will also be reimbursed?

Mr. GIANNI. As near as we can see it. RTC goes through a process of estimating its losses when they take over an institution and updates those estimates on a quarterly basis. Based on the latest RTC estimates, it appears they will be able to repay that working capital. However, I must caution that if the economy changes or if RTC does not recover as much as they anticipated on its hard-to-sell assets, repayment may be a problem.

Mr. KLECZKA. Can you share with the committee your best guesstimate as to what this entire savings and loan crisis will cost the taxpayers? Including bonding costs, naturally.

Mr. GIANNI. In 1990, we estimated that the range was somewhere between \$335 and \$370 billion. We anticipate right now that it is going to be toward the lower end of that range.

Included in this estimate are interest costs for the loss fund borrowings that will be outstanding for up to 40 years. It does not include the interest that will be paid to borrow the funds that we have been appropriating to the RTC. So those funds will just come out of the general revenue. There is an interest cost associated with these funds but they are not included in our estimate.

Mr. KLECZKA. Thank you very much.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Gianni, you stated that the RTC would need \$25 billion to continue their work and close out their assets as best they could by September 30. Is that your recommendation, \$25 billion?

Mr. GIANNI. Yes, sir, that is our recommendation. We previously recommended to the Congress that they should appropriate the money because it will be used to pay off the depositors. They need the funds to complete the Federal Government's obligation to the depositors.

Chairman PICKLE. Is that the recommendation of the outgoing OMB? Do they agree with that?

Mr. GIANNI. Secretary Brady is on record as requesting, I believe, \$43 billion and the difference between the \$25 billion and the \$43 billion is an additional amount of funds to cover thrifts that they estimate will fail after September 30, 1993. So the \$25 billion will take care of RTC's responsibilities.

Chairman PICKLE. Do you know whether the incoming OMB will concur with that figure?

Mr. GIANNI. No, sir, I don't know that.

Chairman PICKLE. That is not your responsibility except I would observe that the Congress was asked twice last year to advance anywhere from \$20 billion to \$40 billion and the Congress refused to do that. So we have a political question more than an accounting problem. But I think we ought to have an agreement on what is really needed and set about it.

I am glad to get your recommendations. At least you concur with the figures they have advanced so far.

Mr. GIANNI. RTC definitely needs the \$25 billion.

Chairman PICKLE. Mr. Herger.

Mr. HERGER. This is indeed an important hearing. We have in excess of \$300 billion budget deficits. There was reference made to the fact that the wholesale firing of the entire Federal work force certainly wouldn't take care of the problem that we have, and I don't think anybody was recommending that happen.

I might point out that in the last election, one quarter of the entire House of Representatives changed, so we are seeing an American public, an American voter out there, our bosses, if you will, who are saying that they want changes made. They want to see our Government run considerably more efficiently than it has in the past and that is the purpose of our hearing here today.

Ms. Shikles, you mentioned in your testimony that in our medical claims to the Medicare program, I believe you mentioned that as much as 10 percent is fraud or abuse. Over \$10 billion, I believe of taxpayer dollars that are being spent that should not be spent.

What are some areas that you can see of programs or what is it that our agencies are doing to correct this?

Ms. SHIKLES. Well, we are concerned that in the Medicare program, up to 10 percent of expenditures may be going to fraud, waste, and abuse. The Health Care Financing Administration, which administers Medicare, uses contractors to run Medicare's day-to-day business.

There are about 82 contractors located around the country that are not only responsible for paying claims to the program, but also doing audits and developing computer editing systems to protect the program from being ripped off.

Our concern, and we have issued a number of reports and testified on this, is that HCFA is not doing a good job of making sure that these contractors protect the program. If you go out and look at the systems, which we have done, you are going to find that the contractors have 15-year-old systems that they are using to prevent the program from being ripped off. For example, they can't even do simple trends analysis. Contractors pay about 700 million claims a year. One activity that the contractors are supposed to do is look at all these claims and identify and investigate patterns that seem suspicious. For example, we just had staff out in Louisiana looking at one of the contractor's operations. Because of a unique program there, the contractor was able to identify a 25- to 30-percent jump in ambulance services over the prior several years. Most contractors do not do this type of analysis, however, and thus would not generally spot such trends. It is important that contractors identify

trends and suspicious patterns so that they can investigate underlying causes. Are there a couple of fraudulent providers ripping the contractor off or a defect in the contractor's payment screens? If it's the latter, contractors can develop a screen, put it in place and make sure that Medicare doesn't pay those bills; if it's the former, the contractor can initiate a fraud investigation.

Our concern is that HCFA is not managing the process to make sure that the program doesn't get ripped off.

Mr. HERGER. Did you mention something about a 15-year-old system?

Ms. SHIKLES. Right.

Mr. HERGER. Computers, what are you referring to?

Ms. SHIKLES. They have been trying to upgrade their computer systems, but the systems that they have in place to do what is referred to as postpayment audits go back 15 years, so they are still using the same types of thinking and practices and procedures and computer software of 15 years ago.

As you know, the medical world has changed radically, it is much more entrepreneurial. There are all kinds of problems out there and if you haven't kept up with this, and you have some pretty clever systems in place, you are going to get ripped off.

For example, one contractor all of a sudden started seeing millions of dollars' worth of claims for echocardiograms. They weren't even watching this so they just pay the bills. They don't know if these are legitimate services. They don't have any screens in place so they just pay.

Mr. HERGER. Is this 15-year-old system in the process of being modernized or will it be 16 years old soon?

Ms. Stathis mentioned we have the same problem with the IRS with computer systems. You mentioned money was not a problem. Is money a problem?

Ms. SHIKLES. Money is a definite problem in the Medicare area.

Ms. STATHIS. It has not been a problem in the IRS section.

Mr. HERGER. So the IRS problem has a management problem and there are \$111 billion not collected of back taxes estimated. Anyway, I concur with my colleague from Missouri. We have some major problems here. When I go out to my district and you talk to just a regular business person, the feeling is that Government does not have just basic business sense.

You are stating, Ms. Shikles, a simple obvious fact; it would appear to be obvious to anyone I would think, that there is a problem but yet it hasn't been corrected. I am not sure if it is in the process of being corrected. Again I think we need to take note—the American people I believe have come to the end of their rope of patience if you will. It shows in the new faces in Washington as far as elected Representatives and I believe this message needs to get out to those who are running our Government as well.

Chairman PICKLE. Mr. Herger, I would as chairman observe that in general I agree with you that the public has reached the end of its patience. I think they have also reached a point though that they are willing for us to make some changes and corrections and that we ought to do it and I think that the time is ripe for us to do it regardless of which side of the aisle we are on. We ought to do it.

A lot of these changes can come through this subcommittee as we make recommendations to the full committee. So if we are willing to bite the bullet, I think the public is willing for us to do it. So I think we ought to seize the change this year.

Mr. HANCOCK. I think that is probably the most profound statement that is going to come out of this hearing, that the public is ready for us to make those changes and if we have the guts to do it, forget about the special interest groups rather than the people back home, we have the opportunity. I appreciate your comment.

Chairman PICKLE. I know we can depend on your votes when we come to a tough decision. Thank you for your questions.

Mr. Brewster.

Mr. BREWSTER. Thank you, Mr. Chairman.

The meeting this morning has certainly given me a better idea of the function of GAO. I have several questions I would like to ask.

Mr. Gianni, in rough estimates, what is the value of the assets RTC controls?

Mr. GIANNI. At the present time, they have about 100 billion dollars' worth of assets and the possibility of anywhere from \$40 to \$60 billion more coming in.

Mr. BREWSTER. About \$100 billion in assets—how much has it liquidated?

Mr. GIANNI. Book value, around \$320 billion.

Mr. BREWSTER. So about 75 percent of what they had?

Mr. GIANNI. Yes, sir.

Mr. BREWSTER. How much have we provided in actual dollars? How much have they actually spent?

Mr. GIANNI. At the present time, the Congress has appropriated \$87 billion.

Mr. BREWSTER. How many employees does RTC have?

Mr. GIANNI. They currently have around 7,000 employees. It is decreasing. At the high 6 months ago, they had 9,000 employees.

Mr. BREWSTER. So as their portfolio decreased, they have decreased the number of employees.

Mr. GIANNI. They have restructured their organization to eliminate some offices around the country.

Mr. BREWSTER. Superfund—how much has been spent on cleanup, planning, overhead, that sort of thing?

Mr. HEMBRA. The responsible parties have contributed about \$7.5 billion to cleanup work. There has been obligated for the program a little over \$11 billion on the part of EPA. EPA has disbursed about \$7.5 billion. Of that amount, they have classified, as I mentioned in my statement, about \$5.7 billion as money they could recover from responsible parties, and of that amount to date they have only recovered about 10 percent of that amount.

Mr. BREWSTER. That is what they have recovered, but how much has been spent on actually cleaning anything up?

Mr. HEMBRA. When you look at what EPA has obligated and what the responsible parties have paid out, you are up close to \$20 billion.

Mr. BREWSTER. Very good.

Mr. Wurtz, you mentioned that it destroys public confidence in Government when accounting errors are in the tens of billions of dollars. It destroys my confidence in it, too.

Can you document some of those errors and provide that to us? Tens of billions even to the largest agency of Government is a significant number. Any documentation we could get would certainly help me understand what we need to do or what can be done to make the Government operate more businesslike.

Mr. WURTZ. Mr. Brewster, since we began the high-risk program in November of 1989, we have initiated over 300 jobs to look into these 17 areas. We have issued some 450 reports or testimonys, and in many of those we have very specific items that document the problems that exist. If you look on an overall basis, for example just in the Department of Defense inventories, we have excess inventories of \$40 billion.

Now, that is a lot of excess inventory. There are instances where time after time we are buying items already classified as excess—and, in 1991 we still bought \$2 billion more. So there are numerous instances.

I believe they did some work on inventories having to do with the medical supplies. We have medical supplies that go back to World War II and that we are maintaining and yet very few of those were used for example in Desert Storm. Many other things were bought new or they are keeping stuff that is outmoded. So there is quite a bit of documentation.

In our audits of the Air Force and the Army, we had to make over \$200 billion of adjustments just to get the accounting records in some kind of shape and, yet, they are not in any kind of shape to enable GAO to render an opinion at this time.

Mr. BREWSTER. Anything you could supply us on that would give me a better understanding.

It appears that each agency has developed their own computer system. Why would we not look at an overall computer accounting system that would be much more easily understood? Seems you would have a greater economy of scale. Why should we not change to one accounting system and one computer system?

Mr. WURTZ. That is a very good question.

Mr. GADSBY. Part of the obstacle to change is the appropriations process. Agencies come to different committees to get money for their agency and those committees fund the activities of those departments. Also, I don't think there is a wholesale opportunity to have uniform computer systems. Many computer systems relate to the program activities of agencies which are obviously substantially different.

But, in certain administrative areas, such as payroll and so forth, there are opportunities and in fact there has been some consolidation. For example, the Department of Agriculture payroll system is used on a centralized and reimbursable basis by a number of agencies of the Government including the GAO.

Mr. BREWSTER. Thank you for the information. As a new guy on the committee, I have a lot to learn. We will have a lot of questions for you.

Chairman PICKLE. Mr. Santorum.

Mr. SANTORUM. Thank you, Mr. Chairman; I appreciate it.

The first thing I would like to do is publicly state that I am absolutely in opposition to the Hancock plan to fire all the Federal employees. I want that for the record; that I do not support that plan.

I am fascinated by a lot of things here, but the remarks at the end by Mr. Wurtz captured my attention the most. I think it fits in well with what the new President is saying, that we have a country that is changing so rapidly and yet Government is not changing and we aren't responding to the dynamics of a new world. We are running the system of the United States Government under a theory that was invented before the printing press.

Bureaucracy was invented—I know, because I have studied this—Max Weber invented the theory of bureaucracy and we run the Federal Government today under the theory of bureaucracy.

Can I ask the question, is the theory still a valid theory or is there a better way to do this?

Mr. GADSBY. I think the theory is somewhat outdated. Your observations build upon what Mr. Hancock and Mr. Pickle talked about, the public being ready for a change. But, we need to ask what kind of change are we ready for, what kind of change do we need.

Other governments, whether they are State governments around this country or national governments around the world have undergone change. Those who have seriously asked the question—what is the problem—have concluded that it is not the people per se, but it is the system in which those people are working. It gets back to what I said earlier about the bureaucracy. We have established a system to manage the inputs and the people and the dollars, but not the results and the incentive structure.

Mr. SANTORUM. I couldn't agree with you more. We need to focus more on outputs and outcomes. The question is how do we get there? We have a system where we want to put everybody in straitjackets and tell them how they have to do their job. This is a major step. That is what bureaucracy is all about, putting everybody in straitjackets and having them perform a task.

The question is how do we get there? Do we have to do it statute by statute? Is there a broad reform that we can take—I am a big advocate of performance-based budgeting. I don't know whether that solves the problem or not but—

Mr. GADSBY. It is a step in the right direction. Things are going on in many different arenas. For example, over the past year in the Senate, Senator Roth from Delaware introduced a piece of legislation, S. 20, that basically would have pilot tested the introduction of strategic planning to a wide range of agencies. It would have also pilot tested granting agencies certain waivers from rules and given them other flexibilities after a period of time that would allow them to better manage their activities. That legislation is to be reintroduced in this session.

So there are certain things that have been tried and can be done across the board. OMB has worked closely with us and with Senator Roth's people in shaping that piece of legislation. But, in the final analysis, what it comes down to is you can change all these rules, but you are going to have to have people that are basically in leadership positions in the different departments and agencies of governments that are committed to the culture change necessary to move in the direction of managing for results.

To the extent the administration selects people with that philosophy, it will be helpful. I think a key position is that of Deputy Di-

rector for Management at OMB. That person will have wide jurisdiction and authority over many of these areas. With the right frame of mind and a lot of energy I think that a person could move the Government in the direction of managing for results through that position.

Mr. WURTZ. Let me add to that comment if I may. We have noticed, on a positive note, in the last 3 years a tremendous shift in the attitudes of OMB, and in the attitude of several agencies of actually wanting to correct and change these situations. So we have noticed there is much more cooperation, much more willingness to talk about the issues, much more willingness to come to compromise solutions, to try to correct the deficiencies.

We have identified a lot of the problems. We need to work more on identifying some of the solutions now. We have had incredible success in a few agencies where the individuals that were appointed by the President really were interested in managing. Where that could take place over an extended period of time I think we could see real progress.

Mr. GADSBY. I would like to add that this whole quality management movement, while it is very vogue to talk about, is also a reality. We recently completed a survey of about 2,800 Federal installations. These would be sub-Cabinet units like IRS service centers. We found that 68 percent of those installations were involved in some phase of trying to implement quality management.

So this is something that is taking hold at the grassroots level, and when I say we need supportive people at the top, I don't think we need them to basically force it on the agencies. We need them at the top to nurture what seems to be a building at the grassroots level and moving forward.

Mr. SANTORUM. I am not an adviser to President Clinton, but I would say to him that if he really wants to make the change that he talked about and do what Ross Perot said, which is fix it, if he wants to fix it I think this is a way to make a comprehensive reform of Government and the scale of change that he talked about in his inaugural and throughout the course of his campaign.

Mr. KLECZKA. I know that the new administration did not create it. He inherited the situation from past administrations. I am sure he will dedicate himself to trying to eliminate these problem areas, but he has only been around since January 20.

Mr. SANTORUM. I am trying to be helpful.

Mr. KLECZKA. I am trying to be more helpful.

Chairman PICKLE. And the Chair is going to try to conclude this hearing. I am trying to get into some broad observations here, Mr. Santorum. First let me say to you that this committee has worked very hard in the last term to put together a bill we call a good government bill—including a taxpayers bill of rights—to try to improve our efficiency and save money.

We have passed the bill in committee on two occasions and on the floor, but it was vetoed. We are introducing it again in this Congress. Since you have worked with us in the area of good government, it is improvement, that it ought to be passed and we have enlisted your help and your support because they are the type of things that we need to bring to finality and we are on the verge of doing that.

I want to thank you for your support in putting those bills together. This year we are going to try to put together another good government bill embodying your recommendations.

I want to comment specifically in one or two areas of things said here.

Mr. Delfico, with respect to PBGC, I noticed on the morning news it was proclaimed that the accounting system and the record-keeping at PBGC were outmoded, you couldn't make an audit, it was in bad shape. I think we agree that that is correct.

This committee as far back as 2 years ago pointed that out. I think they are making changes. You made one statement though that was a departure from your written text, that they have made improvements and are doing better, and that while you haven't been able to make an audit, you hope to be able to make an audit soon.

Mr. DELFICO. That is correct; this year. That is an audit of the balance sheets. We feel that we are making enough progress to do that.

Chairman PICKLE. That is encouraging because we have pushed for that type of thing for the past couple of years.

Second, though, we do need to get those computers in shape so we can actually manage their records. The big problem facing us in the PBGC area is that we are facing a very large underfunded liability that is getting bigger and bigger. You said that in your statement. You said we need to make corrections and do something in the legislative field.

I have introduced a bill that I hope will be a good step in that direction. The point I want to make about it this morning, and a lot more will be said tomorrow in a hearing on this subject, is that we don't need another big computer to tell us that we have underfunded liabilities and that two or three of the big large underfunded liabilities that might go under are causing this big threat to us. That is a fact and we don't need a new audit, because we know that.

On that basis, I hope we can move forward in this field. Tomorrow I think we will have facts and information that will be rather revealing in that field, so we appreciate your testimony on that.

Mr. DELFICO. Thank you.

Chairman PICKLE. Now let me ask—I want to ask, I guess of Ms. Stathis here. You looked at the accounts in the IRS's inventory totaling nearly \$40 billion. IRS has determined \$40 billion to be uncollectible. What did you find when you looked at that figure? Can you report to us?

Ms. STATHIS. You are talking about the currently not-collectible portion of the delinquent taxes which we have been looking at, at the request of the subcommittee. We are in the process of completing that analysis, but we are finding some cases where we believe that IRS should have done more before putting those cases in that category.

Chairman PICKLE. When will we get that report from you?

Ms. STATHIS. In the next 2 to 3 months, you should have that report.

Chairman PICKLE. You do say there are further corrections and changes that should be made. We are concerned because we look at

the situation where you say we have a sum of money that is uncollectible. They give you the total and they receive a statement from an individual who says, "here are my expenses, and I can't pay you." But when you look beneath the cover, you see some of these individuals making payments on a Mercedes-Benz or making a home mortgage payment of \$2,000.

When you have people like that claiming they can't pay their taxes, I say we ought to look at that. Are you looking at the question what is underneath the total declaration made and how they arrive at it?

Ms. STATHIS. We are. We have about 12 percent of a random sample that we believe are of the nature that you describe where there seem to be questionable expenses that the taxpayer is making at the same time they are not paying anything on their back taxes.

Chairman PICKLE. Now you said also that the IRS has got 10 service centers and they have got 26 district offices and about 7 regional offices. Now, in this day and time with new telecommunications systems where you can transmit information across the country almost at the flick of a finger, does it make sense to have the same kind of agency that has been so reliable over the years—should we make changes at IRS?

Ms. STATHIS. We have been saying for a number of years that as IRS completes computer modernization, there are lots of opportunities to rethink their work processes and they really need to do that to get the most out of this investment.

Chairman PICKLE. Two years ago, IRS promised this committee that they would provide the Oversight Subcommittee with estimates of the tax gap for employment taxes, excise taxes, illegal sector income taxes, and estate and gift taxes. Are these estimates available now?

Ms. STATHIS. No.

Chairman PICKLE. When will they be available?

Ms. STATHIS. I do not know. I know that there is a draft in the process on the employment tax gap question. I have no information as to when that might be released.

Chairman PICKLE. We will be in touch with you to see if we can't nail that down more specifically. We want to get into this ourselves as a committee.

Ms. Shikles, do you think the current system of contracting with health insurance companies to process and pay Medicare claims is an efficient way to run the system? What changes if any do you think we should make in this system? Should we stay with the insurance companies solely?

Ms. SHIKLES. We are currently doing some work just on that very issue for the Senate Finance Committee and the Senate Appropriations Committee. Congress has concerns about just the overall contractor structure, and we are looking at the issue of should there be consolidation.

There is a conflict of interest issue here and we are examining that issue. Computer systems—is there a better way to manage the Medicare program and protect the taxpayer?

Chairman PICKLE. Ms. Shikles, I am asking you and you are making a general observation to me. You are asking me—are you

going to make these changes or recommendations or do you have a position yet?

Ms. SHIKLES. We don't have a position yet.

Chairman PICKLE. We will be asking you for that position soon so be thinking about it some more.

Mr. Hembra, do you think it makes sense to dedicate excise tax and trust fund money to the Superfund efforts or should Superfund have to compete for appropriations with other environmental programs? Do you have any feeling about that?

Mr. HEMBRA. What I would say about that is when you look at the program there are two ways to answer. One deals with the funds itself and one deals with the CERCLA legislation and how we deal with hazardous wastes cleanup.

If you look at the fund, conceivably in the out years, if RCRA legislation is working right, if the responsible parties are cleaning up the Superfund sites, there may be a point in time where you could revisit whether or not you need that fund supported through taxes: environmental taxes on corporations, taxes on toxic chemicals, and taxes on crude oil.

But right now EPA itself, Mr. Chairman, is saying that for the 1,275 sites that are on the National Priorities List, that their portion of that is going to cost about \$40 billion. There is not \$40 billion in the Superfund. They have obligated about \$11.5 million, so what you have is not every responsible party has the ability to pay.

Some portion of that universe of NPL sites are going to be called orphaned because there are no responsible parties; so the Federal Government is going to have to step in and pay the bill for those if they are going to be cleaned up. The big problem is the relative risk issue. Right now there is not good information out there that is going to position EPA or anyone else to be able to weigh the various risks that the different environmental problems pose, and the benefits that some investment will bring about in terms of benefits from a human health and environment standpoint.

The work is going very slowly in trying to position the agency to have a better sense of what the risks are so that you are in a position to determine whether too much money is going to Superfund or too little, too much is going to clean water programs versus clean air programs. EPA isn't in that position yet.

Chairman PICKLE. When we passed the Superfund, we financed it by applying a specific tax to oil per barrel and on some chemicals. We were willing to pay to see if we couldn't clean up these sites.

We haven't done the job we set out to do. This Member is going to hesitate strongly when reviewing these programs taxing those areas when we have had such a poor record. The record needs to be changed. We are going to have to make a decision where we are going to get the money and how much and make a definitive decision about the public health risk. We have to make that decision.

I will ask you and expect you whether you think we ought to raise more money other than just excise taxes. There ought to be appropriations funds. You waltzed around the bush about what you recommend. I don't know that it is your responsibility to say specifically we recommend this, but we do know how your good judgment is and sometime during the year we are going to ask you for that.

I would like to have a feeling that while you are not legislating, you are apolitical. You can also say we ought to be able to accomplish this and that is what we think is a good figure.

If you give us that, we can move forward and try to do something on the basis of nonpartisanship and in the interest of more efficiency. I think you have given us a very broad but stark factual truth. Clearly, we can all do better. Every Member of this Congress ought to get a copy of what you said and what ought to be done.

We are going to try to do as much as we can this year. What you said is factual and harsh but needs to be said. And we need to take up the challenge, and working with you, maybe we can do something about it.

Thank you very much for your testimony.

Mr. HANCOCK. I have a couple of comments, questions I would like to ask with your permission.

Ms. Shikles, on the conflict of interest thing, there are 82, I think—is that correct—

Ms. SHIKLES. Right.

Mr. HANCOCK [continuing]. Contractors. Some of those contractors also are in the insurance business.

Ms. SHIKLES. That is right.

Mr. HANCOCK. It would appear that maybe there could be a little conflict of interest there whether they are paying out of their funds or out of Medicare funds. Have you looked into that? Do these contractors operate on a per claim fee or is it a cost plus? How do they get paid?

Ms. SHIKLES. They get a contract on the payment safeguards activities. That is just an appropriation for a set amount of activities. I think it is a per claim fee on the claim side. You are exactly right—they have over 82 contractors, and there is a definite conflict of interest.

They have—on the public side of the business, they do payments for Medicare and yet on the private side if they are too vigilant on the public side, they are going to lose money on the private side of their business. For example, Empire Blue Cross Blue Shield of New York now is a contractor to the Government. It also has a private business. It currently owes the Medicare program over \$400 million out of its private business.

Mr. HANCOCK. Where does the \$400 million come from?

Ms. SHIKLES. It is a category called Medicare secondary payer—where Medicare paid for health bills that should have been paid by Empire Blue Cross Blue Shield.

Mr. HANCOCK. For instance, an employee over 65 that is still working and where Blue Cross-Blue Shield, the private part of it, would be prime rather than the Medicare part, is that—

Ms. SHIKLES. That is exactly right.

Mr. HANCOCK. I primarily wanted to get this into the record.

One final question, Mr. Chairman. Mr. Gianni, you have looked at RTC pretty thoroughly. The law says RTC is supposed to go out of existence in 1993 or 1994?

Mr. GIANNI. The law says they go out of existence in 1996. In 1993, they stop taking over failed thrifts. In September of 1993, any thrift that fails will be taken over by the FDIC and resolved under the new Safe Insurance Fund.

Mr. HANCOCK. In other words, there is a sunset law—

Mr. GIANNI. There is a sunset.

Mr. HANCOCK. They are supposed to go out of business in 1996?

Mr. GIANNI. Yes, sir.

Mr. HANCOCK. What is your guess? Will they be out of business in 1996?

Mr. GIANNI. At the pace they are liquidating assets, I would say that there is a good possibility they will be out of business by 1996. The question is, is this pace the correct pace? Are we disposing of assets perhaps too fast to meet some internal goals of book value reductions, and are we using the appropriate sales disposition strategies which will achieve the maximum return to the taxpayers?

Mr. HANCOCK. I understand.

Mr. GIANNI. So they are on a very accelerated program at the present time and while they are hard-to-sell assets, if you lower the price low enough, there is always going to be a buyer.

Mr. HANCOCK. If it is costing you money to maintain it you would be better off to give it away.

Mr. GIANNI. Perhaps, but no one has gone through the analysis to see whether the discounts they are receiving are outweighed by whether they held on to the assets a few more months or use some other disposition strategy.

Mr. HANCOCK. Thank you.

Thank you, Mr. Chairman.

Chairman PICKLE. I thank all the panelists for their testimony today. It was very helpful.

[Whereupon, at 12:07 p.m., the hearing was adjourned.]

[A submission for the record follows:]

STATEMENT OF THE HONORABLE PETE STARK, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Mr. Chairman, Members of the Committee: Congratulations for focusing more attention on the need for cutting fraud, waste, and abuse and improving the management integrity and control over vulnerable programs.

It is estimated that the fraud, waste, and abuse in the nation's \$900 billion health sector may run as high as 10 percent, or \$90 billion. If we could find that kind of savings, it would be enough to provide health insurance to all the nation's un- and under-insured. Of course, we all know that there is no line-item marked

"Fraud, waste, and abuse...\$90,000,000,000...please cut here."

Studies by the GAO reported in testimony before the Subcommittee on Health have made it clear that the Federal Government actually does a better job than the private sector in rooting out fraud and stopping abusive practices. The nation's 1100 or so insurance companies and the tens of thousands of self-insured plans are simply unable to match the biggest cop on the beat—the Federal Government. Even so, the Federal Government could do more and should do better. Increasing the budget of the HHS Inspector General would be a good start.

But the best thing we could do would be to apply the Federal Government's anti-fraud rules and tools to the entire health sector of the economy. That's what my bill, The Health Care Cost Containment and Reform Act of 1993, HR 200, does. (It includes the same strong anti-fraud provisions as were reported by the Health Subcommittee last July 1.) I urge your support of this legislation.

But we must also recognize that the larger problem lies in the fact that both the public and private sectors often pay way too much for various medical procedures, medicines, and devices. This gross overpayment results in irresistible temptations to cheat: to over-utilize, to over-test, to over-medicate. For example, Medicare pays in the \$400 to \$600 range for an MRI. The private sector frequently still pays \$1100 for an MRI image! Medicare still pays too much. The real cost of an MRI is probably

somewhere in the \$350 range in a well-run, well-utilized facility. With today's profits, many providers are seduced into over-ordering MRIs.

A recent FBI conference on health care fraud commented on some home IV and infusion therapy providers. These companies bill private pay patients \$10,000 a month for products that cost only \$1500. With this kind of 'easy' profit, it is little wonder that medical judgment becomes distorted.

While we should increase the number of policemen in the health care sector, we can never do enough given these excessive payments. And it reminds me of the line from the Declaration of Independence, "he has erected a multitude of New Offices, and sent hither swarms of Officers to harass our people, and eat out their substance."

There has to be a better way. There has to be a better way than erecting more PROs and second-guessers looking over every doctor's shoulder.

The better way is to fundamentally reform the health care system. Currently, the health sector has an open door to the nation's Treasury and private pocketbooks. Only by putting Medicare type reimbursement limits on all sectors of the health economy (allowing them to inflate for the growth in the economy) will we bring some restraint to excessive profits and health care abuses. Only by taking the fat out of the reimbursement system can we abate the fever of get-rich-quick-greed that has infected the healing professions.

Mr. Chairman, I hope you and your Subcommittee will support the anti-fraud provisions of HR 200. But it is important that you also support fundamental systems reform. We must fix the bleeding artery, not just satisfy ourselves with fixing the capillaries.

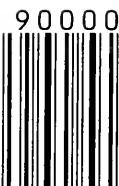


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